



Income Statistics Division

75F0002MIE - 01002

Results of the Tax Permission Question in the Survey of Labour and Income Dynamics

Prepared by:
Elizabeth Abraham
Maud Rivard
Philip Giles
Heather Lathe

March 2001



Statistics
Canada

Statistique
Canada

Canada

Data in many forms

Statistics Canada disseminates data in a variety of forms. In addition to publications, both standard and special tabulations are offered. Data are available on the Internet, compact disc, diskette, computer printouts, microfiche and microfilm, and magnetic tape. Maps and other geographic reference materials are available for some types of data. Direct online access to aggregated information is possible through CANSIM, Statistics Canada's machine-readable database and retrieval system.

How to obtain more information

Inquiries about this product and related statistics or services should be directed to: Client Services Income Statistics Division Canada, Ottawa, Ontario, K1A 0T6 ((613) 951-7355; (888) 297-7355; income@statcan.ca) or to the Statistics Canada Regional Reference Centre in:

Halifax	(902) 426-5331	Regina	(306) 780-5405
Montréal	(514) 283-5725	Edmonton	(403) 495-3027
Ottawa	(613) 951-8116	Calgary	(403) 292-6717
Toronto	(416) 973-6586	Vancouver	(604) 666-3691
Winnipeg	(204) 983-4020		

You can also visit our World Wide Web site: <http://www.statcan.ca>

Toll-free access is provided **for all users who reside outside the local dialing area** of any of the Regional Reference Centres.

National enquiries line	1 800 263-1136
National telecommunications device for the hearing impaired	1 800 363-7629
Order-only line (Canada and United States)	1 800 267-6677

Ordering/Subscription information

All prices exclude sales tax

Catalogue no. 75F0002MIE-01002, is available on internet for free. Users can obtain single issues at <http://www.statcan.ca/cgi-bin/downpub/research.cgi>.

Standards of service to the public

Statistics Canada is committed to serving its clients in a prompt, reliable and courteous manner and in the official language of their choice. To this end, the agency has developed standards of service which its employees observe in serving its clients. To obtain a copy of these service standards, please contact your nearest Statistics Canada Regional Reference Centre.



Statistics Canada
Income Statistics Division

Results of the Tax Permission Question in the Survey of Labour and Income Dynamics

Published by authority of the Minister responsible for Statistics Canada

© Minister of Industry, 2001

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without prior written permission from Licence Services, Marketing Division, Statistics Canada, Ottawa, Ontario, Canada K1A 0T6.

March 2001

Catalogue no. 75F0002MIE - 01002

Frequency: Irregular

Ottawa

La version française de cette publication est disponible sur demande

Note of appreciation

Canada owes the success of its statistical system to a long-standing partnership between Statistics Canada, the citizens of Canada, its businesses, governments and other institutions. Accurate and timely statistical information could not be produced without their continued co-operation and goodwill.

ELECTRONIC PUBLICATIONS AVAILABLE AT
www.statcan.ca



EXECUTIVE SUMMARY

When Statistics Canada first decided to use administrative data sources to collect income data in the Survey of Labour and Income Dynamics (SLID), it was with the dual objective of reducing respondent burden and improving data quality. Since 1995, respondents are offered the choice of reporting income by interview or by giving Statistics Canada permission to access their tax records from Revenue Canada. With this “mixed mode” approach, tax data are used for consenting respondents and interview data for non-consenting respondents and non-filers.

This study analyses the results of the tax permission question in SLID for the reference year 1997. Rates are compared among various sub-groups of the population to see if there are any variations based on identifiable characteristics.

ELECTRONIC PUBLICATIONS AVAILABLE AT
www.statcan.ca



TABLE OF CONTENTS

Introduction	9
Advantages for data quality of a 'mixed mode' approach	9
History	10
1997 results	10
Permission rates across age groups	11
Permission rates across provinces	11
Permission rates among males and females	12
Permission rates based on income level.....	13
Permission rates based on educational attainment	14
Permission rates based on labour force status	15
Use of weighted data.....	15
Conclusion	16
Bibliography	17

ELECTRONIC PUBLICATIONS AVAILABLE AT
www.statcan.ca



Introduction

When Statistics Canada first decided to use administrative data sources to collect income data in the Survey of Labour and Income Dynamics (SLID), it was with the dual objective of reducing respondent burden and improving data quality. Statistics Canada has always been sensitive to the response burden faced by respondents as a result of its surveys. In a longitudinal survey environment where the same respondents have to be contacted a number of times over several years, the response burden can be even greater. After some initial testing, the survey began in 1995 to offer respondents the choice of reporting income by interview or by giving Statistics Canada permission to access their tax records from Revenue Canada.

With this “mixed mode” approach, tax data are used for consenting respondents and interview data for non-consenting respondents and non-filers. Respondents are free to refuse to give information on their income by any method, as the survey has always been voluntary. Respondents who do give permission are free to revoke it at any time they choose to do so. Social insurance numbers (SINs) are not collected. Statistical linkage is used to match variables that are common to the SLID and tax files.

This study analyses the results of the tax permission question in SLID for reference year 1997. Rates are compared among various sub-groups of the population to see if there are any variations based on identifiable characteristics. Since permission rates tend to be related to the length of time that a person is in the sample, 1997 cannot be considered completely representative of all years. However, it is hoped that it is representative of the several patterns over time

Advantages for data quality of a 'mixed mode' approach

Household surveys generally experience data quality problems when attempting to collect information on income. As many respondents consider this to be a sensitive issue, response rates for income questions are typically lower than for other topics. By going the tax route, respondents may avoid discussing this delicate matter with interviewers. One expects collecting data directly through tax files should thus increase the number of respondents from whom income data is obtained.

Underreporting or non-reporting of income sources is also problematic with data collected interview. Typically respondents forget income they may have received from smaller income sources, including income from interest and dividends, self-employment earnings, social assistance, and unemployment benefits. Such omissions could lead to biased income estimates. As all taxable income sources must be declared when filing a tax return, using administrative records instead of survey data should greatly reduce problems associated with underreporting.

Other sources of error in survey data include the rounding of income amounts and proxy response by individuals with poor knowledge of the respondent's sources of income. Administrative sources are believed to be less prone to rounding errors and use of tax records eliminates the need for proxy response.

The major disadvantage of administrative data is that information exists only for tax filers. Although the proportion of Canadians filing a tax return has increased in recent years (mainly because introduction of the GST rebate has given an incentive to low income earners to file a tax return), coverage is still less than 100%. A mixed collection approach offers the advantage of improved data quality through use of administrative tax data while allowing for an alternative means of collecting data for non tax-filers.

History

The tax permission question went through a process of testing before its implementation in May 1995. A sub-sample of respondents in the Labour Force Survey was first asked in August 1993 a hypothetical tax permission question as part of the testing process. In addition, the SLID respondents were also asked the same hypothetical question at the very first income interview, in May 1994; more than half the respondents said "yes" to the question, which was considered to be a fairly positive response. It was expected that when respondents were actually asked the question in a real situation on some 25 income sources for six years in a row, the response rates would be even higher. The expectation proved right and there was a healthy increase in tax permission rates. When the 'new way' was implemented in May 1995, 69% of the population using weighted data chose the tax route, 29% refused permission while the remaining 2% did not file a tax return. This translates into a 70% permission rate once non tax-filers are excluded.

1997 results

The 1997 data reveal that the permission rates have continued to increase. Using weighted data, about 81% of the population have gone the tax route, while 16% refused permission and the remaining 3% did not file a tax return for a permission rate of 83.1%. Among those who did give permission, income data were collected from tax files for 71% of the population and no data were collected for 10% of the population. The latter group consisting of late filers or persons that could not be matched through the statistical linkage process. Out of the 16% that refused permission, 10% responded to the survey questionnaire and data were not collected for the other 6%. Even among the 3% that did not file a tax return, about half (1.4%) responded to the survey questionnaire and data were not collected for 1.5% of the population. The 1997 data consisted of 2 panels and represented the 5th wave of the first panel and 2nd wave of the second panel. Since permission rates tend to be related to the length of time that a person is in the sample, 1997 cannot be considered completely representative of all years. However, it is hoped that it is representative of the general patterns over time.

Permission rates across age groups

Permission rates are shown for different age groups in Table 1. The five age groups of tax-filers covering ages 16 to 54 all show very similar permission rates of between 80% and 83.5%. These rates are also close to the national average of 83.1%, as these individuals also represent about 85% of the adult population. The two oldest age groups, with permission rates of over 85%, seem to be more willing to allow use of their tax file records.

Persons aged 16 to 24 had a somewhat lower permission rate than the national average, at 81.8%, as did the age group 45 to 54. However, this permission rate is very similar to that of other non-seniors.

Table 1: Permission rates by age groups as a percentage of tax-filers, 1997

%	16 to 24	25 to 34	35 to 44	45 to 54	55 to 64	65 to 74	>= 75
Permission rate	81.8	83.4	83.1	80.6	82.3	85.7	89.7
Permission given	70.2	82.7	82.7	79.8	80.7	85.1	88.9
Permission not given	15.6	16.5	16.8	19.3	17.4	14.2	10.2
Did not file tax return	14.2	1.0	0.6	1.0	1.9	0.6	0.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Permission rates across provinces

Provincially, the responses rates varied from 79.6% in Saskatchewan to 87.3% in New Brunswick (see Table 2). There is very little variation in the proportion of the population who did not file a tax return across the provinces.

Table 2: Permission rates by province for persons aged 16 and over as a percentage of tax-filers, 1997

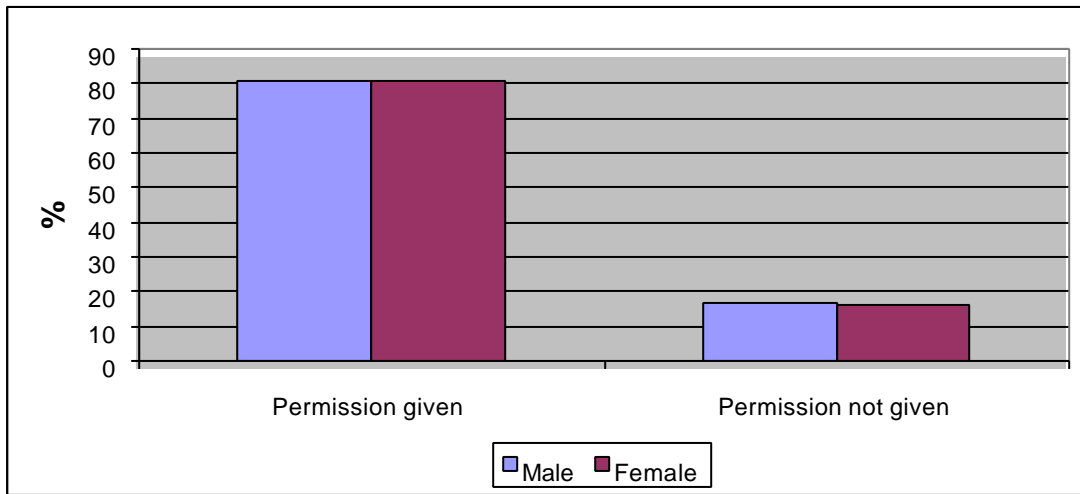
%	Permission rate	Permission given	Permission not given	Did not file tax return
NFLD	86.8	83.8	12.6	3.7
PEI	83.3	81.2	16.5	2.4
NS	80.1	76.8	19.2	4.0
NB	87.3	84.5	12.4	3.2
QUE	87.2	84.2	12.4	3.5
ONT	81.7	79.6	17.8	2.6
MAN	82.3	80.2	17.4	2.5
SASK	79.6	77.4	19.7	2.8
ALTA	79.7	77.0	19.7	3.3
BC	82.4	80.1	17.1	2.7

Permission rates among males and females

The data reveal virtually no discrepancy in the permission rates given between males and females: 82.8% of males and 83.6% of females gave their consent for the use of tax data (see Chart 1).

Women are slightly more likely to not file a tax return (3.4% versus 2.5%). The lower participation of women in the labour market might, at least partially, account for the difference in percentage of tax-filers across sexes.

Chart 1: Permission rates for males and females, 1997



Sub-dividing males and females according to age groups reveals a slightly higher permission rate among women aged 25 to 34 than for men of the same age group (84.5% as opposed to 82.4% for men). Otherwise, both older males and females have higher permission rates compared with their younger counterparts.

The finding that greater proportions of women than men are non-tax filers also holds across the different age groups.

Table 3: Permission rates of males and females by age group as a percentage of tax-filers, 1997 (Persons aged 16 and over)

Male (%)	16 to 24	25 to 34	35 to 44	45 to 54	55 to 64	65 to 74	>= 75
Permission rate	81.2	82.4	82.9	81.1	81.1	85.9	90.4
Permission given	69.7	81.8	82.6	81.0	81.7	85.7	90.0
Permission not given	16.2	17.5	17.1	18.9	18.0	14.2	9.6
Did not file tax return	14.1	0.7	0.3	0.1	0.2	0.2	0.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Female (%)	16 to 24	25 to 34	35 to 44	45 to 54	55 to 64	65 to 74	>= 75
Permission rate	82.5	84.5	83.4	80.0	82.6	85.6	89.4
Permission given	70.6	83.6	82.8	78.9	79.6	84.8	88.2
Permission not given	15.0	15.3	16.4	19.6	16.8	14.2	10.5
Did not file tax return	14.3	1.2	0.8	1.9	3.6	0.9	1.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Permission rates based on income level

Permission rates for individuals according to income quintiles are shown in Table 4. Overall, there is not a great deal of difference by income quintile. Persons with income falling within the second and third quintiles appear somewhat more willing to grant Statistics Canada access to their tax files; 86.4% and 84.9% of tax-filers belonging to the second and third quintiles respectively chose the tax route, while the average permission rate within the three other quintiles was about 81%.

Table 4: Permission rates based on after-tax personal income quintiles as a percentage of tax-filers, 1997 (Persons aged 16 and over)

%	Lowest quintile	Second Quintile	Third Quintile	Fourth Quintile	Highest Quintile
Permission rate	81.2	86.4	84.9	81.9	81.0
Permission given	70.4	85.4	84.7	81.8	80.9
Permission not given	16.3	13.5	15.0	18.1	19.0
Did not file tax return	13.3	1.1	0.2	0.1	0.1
Total	100	100	100	100	100

Table 4 was reproduced for the population aged 25 and over (not shown), in order to see if a concentration of adults aged 16 to 24 in the lowest quintile was having an impact on the permission rate for this quintile. The permission rate of the lowest quintile increased from 81.2% to 84.8%, while the rates of the highest

quintiles remained virtually unchanged. This suggests that having a low level of income is not by itself a significant factor either way in the choice to give permission to use tax records in the survey, although having a higher level of income may be.

This point is supported by Table 5, which shows permission rates of individuals by low income status. The person's after-tax family income is compared to the low income cut-off (LICO) for that family size (using 1992-based LICOs). Families not in low income are more likely to refuse permission to use tax data than families lying below the LICO, or 17% compared with 13%.

Table 5: Permission rates based on low income status (after-tax) as a percentage of tax-filers, 1997 (Persons aged 16 and over)

%	Below LICO	Above LICO
Permission rate	86.8	82.6
Permission given	82.8	80.4
Permission not given	12.6	16.9
Did not file tax return	4.7	2.8
Total	100.0	100.0

Permission rates based on educational attainment

Given the positive correlation between income and education, it is not surprising to find that more highly educated persons are less inclined to grant permission to their tax data. Table 6 shows permission rates gradually falling as the level of education increases and a marked difference in permission rates between persons with less than a high school diploma (87.4%) and those with a university diploma (81.5%).

Table 6: Permission rates based on highest level of education as a percentage of tax-filers, 1997 (Persons aged 16 and over)

%	< High School Graduation	High School Graduation	Post-Secondary Non-University Graduation	University Graduation
Permission rate	87.4	84.7	84.1	81.5
Permission given	81.1	83.0	83.5	81.0
Permission not given	11.8	14.9	15.8	18.5
Did not file tax return	7.3	2.0	0.7	0.6
Total	100.0	100.0	100.0	100.0

Permission rates based on labour force status

Permission rates were similar for the persons who were unemployed all year and those not in the labour force all year, at about 85%. Persons employed throughout the year had a somewhat lower permission rate of 82.4%. This finding can, again, be interpreted as reflecting the greater reluctance of those with more income to grant permission to their tax files. (People whose labour force status changed during the year were excluded.)

It is also interesting to note that about 10% of persons not in the labour force did not file a tax return compared with only 2% for the unemployed and less than 1% for the employed.

Table 7: Permission rates based on labour force status as a percentage of taxfilers, 1997 (Persons aged 16 and over)

%	Employed	Unemployed	Not in the Labour Force
Permission rate	82.4	85.2	85.0
Permission given	82.0	83.4	76.6
Permission not given	17.5	14.7	13.5
Did not file tax return	0.5	1.9	9.8
Total	100.0	100.0	100.0

Use of weighted data

The analysis in this paper was performed using weighted data. The use of weighted data is considered not to significantly affect results as compared to unweighted data. If there is inconsistency in the results leading to the use of weighted data, it will be noticed in the provincial distribution and rural/urban split. This is because the sampling rates are quite different between the two areas, with more chance of a person being sampled from the rural area, and more chance of a person being sampled from a smaller province such as PEI as compared with a larger province such as Ontario. The permission rates do not in fact appear to differ by the size of the province (see Table 2) or between rural and urban areas. The permission rate for rural areas was 83.1% compared with 83.3% for the urban areas.

Conclusion

In an effort to reduce response burden and collection costs and to increase data quality, SLID moved in 1995 from an entirely questionnaire-based approach to a mixed mode approach to collect income data. The new collection method relies on the use of administrative tax records for all respondents who allow permission to their tax files and on survey questions for the remainder.

There are, theoretically, numerous advantages in terms of data quality to using tax data when available. For the mixed approach to be efficient, permission rates must not vary substantially across sub-groups of the population. Otherwise, comparisons between different groups of people may potentially be biased, to the extent that those who grant permission to their tax records differ significantly from those who refuse. Even then, however, it also depends on the degree to which administrative and questionnaire sources produce systematically different results for the same people.

Results presented in this paper indicate that respondents are quite willing to allow use of their tax files: in 1997, 82% of the population chose to go the tax route. Although we find some differences according to age, province of residence, and level of income, permission rates across the different groups never vary by more than seven percentage points. In light of this and of the lower collection costs and burden to respondents associated with using administrative data, we conclude that the optimal approach consists of using tax files when available and survey data for non-consenting respondents and for non tax-filers.

Bibliography

Michaud, S. and Latouche, M. "Some data quality impacts when merging survey data on income with tax data", SLID Research Paper Series, Cat. No 96-12.

Greenberg, T. "Results of the income permission question from the August 1993 test". SLID Research Paper Series, Cat. No 94-03.

Poulin, S. "The use of income tax data for SLID". SLID Research Paper Series, Cat. No 93-01.